

PHILIPPINES ECONOMIC & FINANCIAL WRAP-UP

AUGUST 25 - SEPTEMBER 07, 2001

Summary

The peso traded within a relatively narrow band during the August 27-September 7 period, although downward currency pressure re-emerged on the heels of resurgent regional pressures and poor Philippine export numbers. Rates for 91-day T-bill rates continued to soften but those for the longer-term tenors were stickier coming down. The stock market continued to languish over the past two weeks, closing on September 5 at 10-1/2 month low before posting some gains on bargain-hunting. We also report on better-than-expected, second-quarter GDP economic growth numbers (which showed domestic economic activity up 3.3% year-on-year), as well as slower (6.3%) year-on-year inflation in August. On the negative side, recently-released indicators show that export revenues remain depressed (slumping by 19.4% year-on-year in July) and that January-July tourist arrivals declined by 8.3% year-on-year. End Summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). Our next update will be submitted on or about September 21. We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT

The peso traded within a fairly tight band of P50.89-P51.26/US\$ from August 27 (Monday) to September 4 (Tuesday). By September 5, however, downward pressure had re-emerged, which currency traders attributed to jitters over recently-released, poor export figures and weaker regional currencies (triggered by renewed downward pressure on the yen). The peso closed the August 27-31 trading week at P50.935 and the week of September 3-7 at P51.380 (0.6% weaker than August 24's P51.05/US\$ closing rate). (See Section II for detailed foreign exchange data.)

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
JUL 30	53.562	53.370	106.7
31	53.526	53.540	67.7
AUG 01	53.744	53.770	94.4
02	53.667	53.645	67.0
03	53.562	53.450	92.5
AUG 06	53.282	53.220	80.5
07	53.293	53.320	82.1
08	53.303	53.150	104.5
09	53.085	53.000	90.7
10	52.322	51.850	151.7
AUG 13	51.278	51.210	124.0
14	51.183	51.175	94.5
15	50.831	50.950	136.5
16	51.101	50.950	129.0
17	51.193	51.140	60.0
AUG 20	51.303	51.300	107.8
21	51.329	51.250	88.0
22	50.946	50.910	145.2
23	51.014	51.000	62.3
24	51.056	51.050	107.5

AUG 27	51.176	51.130	113.0
28	51.106	51.200	59.4
29	51.207	51.190	90.3
30	51.210	51.215	55.5
31	51.017	50.935	107.5
SEP 03	51.005	51.040	72.5
04	51.078	51.150	107.0
05	51.216	51.170	77.5
06	51.311	51.335	96.0
07	51.345	51.380	77.2

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Average rates for 91-day Treasury bills softened further during the government's weekly (Monday) auctions on August 27 (9.576%) and September 3 (9.521%) from 9.59% on August 20. Bid rates for the longer-term 182-day and 364-day bills have been stickier coming down but showed signs of easing during the latest auction. From 11.659% on August 20, average rates for the 182-day paper moved up to 11.94% (August 27) and, more slightly, to 11.962% (September 3). From 12.798% on August 20, the average rate for the 364-day paper increased to 12.95% before declining to 12.819% on September 3. Both August 27 and September 3 auctions were oversubscribed and the government fully awarded the P4 billion worth of bills scheduled for sale weekly.

Treasury officials noted that the strong demand for government paper suggest that banks/dealers remain reasonably liquid after adjusting to the Bangko Sentral ng Pilipinas' (BSP, central bank) July 27 and August 10 reserve-requirement hikes. Treasury officials expect a downward bias during next week's auction, reflecting the reported slowdown in consumer price inflation.

Before the September 8-9 weekend, the Bangko Sentral announced that the Philippine Monetary Board had decided to keep overnight borrowing and lending rates steady (at 9.0% and 11.25%, respectively) despite the reported

deceleration in the August inflation rate. BSP noted that inflationary pressure had weakened but, nevertheless, lingered -- citing recent currency pressures and the emerging trend in world crude prices with the approaching winter season in Western countries. Monetary authorities also opted to wait for a firmer indication of the impact of recent monetary tightening actions.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
JUL 09	8.849	10.172	11.419
JUL 16	8.958	10.489	11.768
JUL 23	8.935	10.861	11.988
JUL 30	9.215	no sales	no sales
AUG 06	no sales	no sales	no sales
AUG 13	9.652	11.525	12.557
AUG 20	9.590	11.659	12.798
AUG 27	9.576	11.940	12.950
SEP 03	9.521	11.962	12.819

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
-----	-----	-----
JUL 05	12.5638	10.00 - 13.770
JUL 12	12.5837	10.00 - 13.849
JUL 19	12.6249	10.00 - 13.958
AUG 02	12.8134	10.50 - 14.215
AUG 09	12.8318	10.50 - 14.215
AUG 16	13.0594	11.00 - 14.652
AUG 23	12.9746	11.00 - 14.590
AUG 29	12.9726	11.00 - 14.590
SEP 06	12.8884	11.00 - 14.590

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

The Philippine Stock Price Index (Phisix) generally trended down over the past two weeks to close at 1252.58 on September 4 (Tuesday) -- the lowest closing level recorded since October 23, 2000. Some late-week gains -- which stock market analysts attributed mainly to a technical rebound -- nudged up the index from that 10-1/2 month low. The Phisix closed at 1297.35 on September 7, up 0.9% from August 24's 1286.07 closing level.

Except for occasional bargain-hunting, analysts see little impetus in the short-term to spur stock market prices and trading volumes from their lethargic levels, citing "unconvincing" corporate profits thus far. A number of analysts commented that the market generally discounted better-than-expected, second-quarter economic growth numbers which the government released in late August -- reflecting doubts on whether growth was sustainable.

Philippine Stock Exchange Index (PHISIX) and Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
----	-----	-----
JUL 30	1350.95	323
31	1362.89	406
AUG 01	1333.71	373
02	1341.56	472
03	1328.17	338
AUG 06	1333.05	382
07	1332.03	688
08	1308.41	1,028
09	1278.40	1,059
10	1294.23	481
AUG 13	1303.65	337
14	1303.06	271
15	1325.16	398

16	1316.22	326
17	1306.17	488
AUG 20	1311.13	995
21	1306.66	342
22	1294.43	409
23	1278.14	347
24	1286.07	361
AUG 27	1287.48	241
28	1282.49	402
29	1270.57	232
30	1262.91	396
31	1265.44	477
SEP 03	1253.61	226
04	1252.58	359
05	1254.33	296
06	1283.74	525
07	1297.35	419

Source: Philippine Stock Exchange

SECOND-QUARTER GDP UP 3.3% YEAR-ON-YEAR

Real Gross Domestic Product (GDP) increased 3.3% year-on-year during the second quarter of 2001, and Gross National Product (GNP) by 3.5%. The second-quarter GDP growth performance -- which slightly surpassed the 3.2% expansion recorded during the first three months of the year -- surprised even government economic planners, who had expected the domestic economy to grow in the 2.8% to 3.0% range during the period.

On the production side, the domestic economy more or less sustained its first quarter expansion because the industrial sector accelerated from 1.6% to 3.6% growth. That acceleration just about made up for the second-quarter slowdown in agriculture (from 3.5% to 2.5%) and services (from 4.2% to 3.4%). The industrial sector's higher growth rate reflected a positive reversal in overall construction output from a 4.0% decline during the first quarter to positive 6.6% growth in the second quarter. With private construction still in the

doldrums, that growth emanated mainly from the public sector. Government analysts attributed the increase in public sector construction output partly to Build-Operate-Transfer projects. The release of government funds for capital spending after the delayed (March 2001) enactment of a 2001 budget also boosted public sector construction activity during 2001's second quarter.

On the demand side, exports (measured in real peso terms), personal consumption, government spending, and capital formation all posted weaker year-on-year growth performances relative to the first quarter. However, a larger share of overall local and foreign demand was supplied by domestic production (as opposed to imports) during the second quarter than in the first three months of 2001, which sustained the overall first quarter 2001 GDP expansion into the second quarter of the year.

On a cumulative first semester basis, GDP expanded by 3.3% year-on-year. Government economic planners expressed confidence that growth will be sustained during the second semester, allowing the government to hit at least 3.3% GDP growth for full year 2001 (the lower end of its downward-revised 3.3% to 3.8% targeted growth range). A number of private analysts, however, have expressed reservations about the sustainability of the economy's first-semester expansion -- citing slowing domestic demand, dimming hopes for a second-semester export rebound, and the currently tight rein on government spending.

GDP AND GNP BY INDUSTRIAL ORIGIN AND EXPENDITURE SHARES
(Year-on-Year Growth Rates, In %)

	2 0 0 0			2 0 0 1		
	-----			-----		
	Q1	Q2	Sem1	Q1	Q2	Sem1
GDP	3.3	4.3	3.8	3.2	3.3	3.2
GNP	3.5	4.4	4.0	3.3	3.5	3.4

By Industrial Origin

Agri, Fishery,

& Forestry	0.4	4.5	2.3	3.5	2.5	3.0
Industry	4.4	3.5	3.9	1.6	3.6	2.7
Mining	18.8	9.1	14.1	(13.8)	13.2	(1.2)
Manufact.	6.0	6.2	6.1	3.4	2.6	3.0
Construction	(4.7)	(8.6)	5.2	(4.0)	6.6	1.3
Utilities	4.5	4.3	(3.2)	4.0	3.5	3.7
Services	4.0	4.9	4.4	4.2	3.4	3.8
Transport & Communic.	7.3	10.9	9.1	10.3	7.1	8.6
Trade	4.7	6.5	5.6	5.6	4.5	5.0
Finance	0.5	1.9	1.2	0.7	1.0	0.9
Real Estate	1.7	1.6	1.7	(2.7)	(1.0)	(1.8)
Private Serv.	5.2	4.3	4.7	4.8	3.4	4.1
Gov't Serv.	1.9	(0.5)	0.7	2.0	1.5	1.8

By Expenditure Share

Personal Consumption	3.2	3.2	3.2	3.5	3.2	3.4
Government Consumption	(6.3)	(1.2)	(3.6)	3.0	(2.4)	0.1
Capital Form.	0.6	1.2	0.9	5.0	3.4	4.3
Fixed Cap.	1.0	(0.7)	0.2	(0.5)	3.1	1.2
Change in Stocks (Billion Pesos)	0.5	(1.8)	(1.3)	3.5	(1.8)	1.7
Exports	11.7	16.0	13.9	5.4	(4.1)	0.6
Merchandise	15.7	20.7	18.2	9.7	(3.3)	3.0
Non-Factor Services	(3.4)	(4.0)	(3.7)	(14.2)	(8.5)	(11.5)
Less: Imports	1.4	(3.7)	(1.2)	4.3	2.3	3.3
Merchandise	8.7	2.6	5.5	8.0	4.4	6.2
Non-Factor Services	(30.6)	(38.6)	(34.4)	(21.0)	(17.6)	(19.5)

Source: National Statistical Coordination Board

AUGUST YEAR-ON-YEAR INFLATION SLOWS TO 6.3%

August 2001's consumer price index (CPI) barely rose by 0.1% month-on-month, decelerating from July's 0.6% rate. Except for miscellaneous items, all other major indices generally posted slower month-on-month increases than in July: food and beverages (0% from 0.7%); fuel, light and water (0.4% from 0.9%); services (0.2% from 0.4%); housing and repairs (0.2% from 0.6%); and clothing (0.2%, the same rate as the previous month). August 2001's 0.1% month-on-month CPI increase also represented a marked deceleration from that posted in August 2000 (0.7%).

On a year-on-year basis, inflation slowed to 6.3% in August -- the lowest recorded year-on-year rate since November 2000. Vis-à-vis July's year-on-year CPI increase, slower year-on-year inflation rates were posted by the heavily-weighted food and beverage index (4.4% from 5.2%); fuel, light, and water (11.1% from 12.9%); and services (11.4% from 12.1%). Clothing and miscellaneous items increased by the same year-on-year rates posted in July (4.1% and 4.3%, respectively.)

Year-on-year inflation averaged 6.6% during the first eight months of 2001, within the government's 6-7% targeted range for the full year. Barring severe domestic or external pressures on food prices and the local currency, year-on-year inflation is generally expected to slow further in the months ahead. Prices in the coming months also will be coming off a relatively high 2000 base (during which foreign exchange and oil price-related price adjustments accelerated).

 PHILIPPINE CONSUMER PRICE INFLATION
 (IN %)

	Year-on-Year	Month-on-Month
	-----	-----
Jan 2000	2.6	0.5
Feb	3.0	0.4
Mar	3.4	0.1
April	3.7	0.2
May	4.2	0.4
Jun	3.9	0.7
Jul	4.3	0.5

Aug	4.6	0.7
Sep	4.6	0.5
Oct	4.9	0.7
Nov	6.0	1.2
Dec	6.6	0.7
Average		
Jan-Aug	3.7	
Jan-Dec 2000	4.4	
Jan 2001	6.9	0.8
Feb	6.7	0.2
Mar	6.7	0.1
Apr	6.7	0.3
May	6.5	0.1
Jun	6.7	1.0
Jul	6.8	0.6
Aug	6.3	0.1
Average		
Jan-Aug	6.6	

Source: National Statistics Office

JULY EXPORT UPDATE: SLUMP CONTINUES

The latest available statistics (publicly released on September 4) show that exports continue to perform poorly, hit hard by the economic slowdown in the United States and Japan and by the weak global demand for electronic products. According to the National Statistics Office (NSO), July 2001 export receipts dipped by 19.4% year-on-year to \$2.6 billion -- following on year-on-year declines posted in February (3.4%), March (4.0%), April (15.8%), May (11.4%), and June (23.4%). Receipts from shipments of electronic components (down 36.6% in US\$ terms) also shrank year-on-year for a fifth month in a row. Cumulatively, January to July export revenues declined by 10.8% from 2000's comparable seven-month level, with receipts from electronics (60% of total export revenues) down 18.4%.

Merchandise exports to the United States (the Philippines' largest export market) accounted for over 28% of total export receipts during the first seven months of the year but suffered a 14.4% decline from

2000's comparable level. With hopes dimming for a second-semester rebound in external markets, full-year 2001 export revenue -- which slowed to a single-digit growth rate in 2000 -- appears headed for a year-on-year contraction. Exports last declined year-on-year in 1985.

 PHILIPPINE MERCHANDISE EXPORTS
 (In US\$ Millions)

	January - 2000	July 2001	Growth (%)
TOTAL EXPORTS	20,835.5	18,582.3	(10.8)
-----	-----	-----	-----
Agro-Based Products	950.5	902.4	(5.1)
Forest Products	13.9	12.3	(11.5)
Mineral Products	386.1	315.4	(18.3)
Petroleum Products	207.9	145.1	(30.2)
Manufactures	18,709.9	16,555.8	(11.5)
Electronics Components	13,822.3	11,279.2	(18.4)
Others (mainly re-exports)	567.1	651.3	14.8

 Source: National Statistics Office

JANUARY-JULY TOURIST ARRIVALS DOWN 8.32%

Visitor arrivals have been down from their comparable 2000 levels since the beginning of the year. These declines ranged from nearly 3% in March to about 18% in February. The trend continued in July, during which visitor arrivals totaled 154,480, declining 7.02% decline from last year. The Japanese market dominated the visitor traffic (21%), closely followed by the US market (20%) and, at a far third, by visitors from Korea (12%).

On a cumulative basis, total arrivals for the January to July period totaled 1,127,143, representing an 8.32%

decline over last year's recorded volume. Tourism officials attributed the depressed visitor arrivals to the negative publicity generated by continuing peace and order problems, political uncertainties, and the slowed expansion of the global economy. It is interesting to note that seven-month arrivals of Philippine nationals permanently residing abroad declined by nearly 18% year-on year -- suggesting that they too have may have been discouraged by negative news on domestic security.